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SUBJECT: AZERBAIJAN COMMERCIAL UPDATE, NOVEMBER 1-15, 2007

11. SUMMARY: This information is drawn primarily from the Azerbaijani local press, and has not been checked for accuracy. The opinions and policies expressed in this report are those of the authors, not the U.S. Government. END SUMMARY.

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- TWO COMPANIES' TRANSFER TENDER ANNOUNCED
- ENVIRONMENT MINISTRY ANNOUNCED A TENDER

12. PRIVATIZATION VOUCHERS VALID THROUGH 2010

President Ilham Aliyev issued a decree on November 13 extending the validity of state privatization vouchers and state privatization options until January 1, 2010.

13. BTK RAILWAY LAUNCHED ON NOVEMBER 21

On November 21 the leaders of Azerbaijan, Georgia and Turkey inaugurated the construction of the Baku-Tbilisi-Kars railway project. It is the region's first major project not directly related to energy. The railway will ensure the uninterrupted transport of passengers and freight. It is expected to lead to further development of the Europe-Caucasus-Asia transport corridor within the reconstruction of the ancient Great Silk Road.

14. AZERIINSHAATSERVIS TO BUILD GEORGIAN BTK PASSAGE

According to the Georgian Marabda-Kartsakhi Railway LLC, which oversees the construction of the Georgian branch of the railway, Azerbaijan's Azeriinshaatservis has been selected as the primary construction contractor. The Azerbaijani company shall carry out construction on the 60km Georgian segment from Akhalkalaki to Kars.

Marabda-Kartsakhi Railway LLC has already received USD 280,000 to cover the initial cost of construction works. By the end of 2007, the GOAJ plans to provide Georgia with the first USD 40 million tranche out of the USD 200 million loan allocated from the State Oil Fund of Azerbaijan (SOFAZ). This amount shall cover reconstruction of the Marabda-Akhalkalaki railway branch and building of new railway segment from Akhalkalaki to the Turkish border. The loan will be extended for a 25-year period with a one percent per annum rate through the International Bank of Azerbaijan's subsidiary IBA-Georgia.

15. NATIONAL BANK TO RESTRUCTURE FOREX RESERVES

The GOAJ will work on minimizing its foreign exchange losses from the long-term depreciation of the U.S. dollar. National Bank (NB) chairman Rustamov has proposed to change the structure of the country's FOREX reserves. Azerbaijan's currency reserves exceed USD 7 billion and are formed mainly from two sources - NB's reserves and assets of SOFAZ. The NB currency reserves (USD 3.285 billion) are 90 percent formed in US dollars. According to the National Bank, the local currency market totals USD 10 billion, with the majority of the transactions done in the American currency. "For example, 85-90 percent of total foreign trade operations are in US dollars", Rustamov emphasized. "The current depreciation of the US dollar is not a risky factor for us, however, we still would like to restructure our FOREX assets and find the optimal balance", he added.

16. NGO REPORTS 22.15 CPI INCREASE FOR PAST 10 MONTHS

USAID-funded Economic Research Centre reported that the consumer price index (CPI) for January-October 2007 reached 22.15 percent, of

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which prices rose 22.81 percent in Baku and 21.32 percent in the rural regions of the country.

17. LUKOIL SUPPORTS LOCAL BUSINESSMEN

Russia's Lukoil plans to support the creation of the SME Development Support Fund in Azerbaijan. Lukoil will also invest in development of the educational system in Azerbaijan. In Azerbaijan, Lukoil participates in the development of the Shah Deniz gas condensate field (10 percent) and exploration of D-222 (Yalama) perspective structure.

18. GOAJ DEVELOPS NEW ANTI-INFLATION MEASURES

Heydar Babayev, Minister of Economic Development of Azerbaijan, stated in Parliament that world competition (strengthening of inflation, price growth for oil) had led to the strengthening of inflationary trends in Azerbaijan in 2007. According to Babayev, in 2008, due to Azerbaijan's fast-paced economic development, currency inflow and rising import prices will bring the CPI up to 12-14 percent. Babayev pledged that the GOAJ would apply new anti-inflation tools.

19. EBRD FORECASTS 30 PERCENT GROWTH IN AZERBAIJAN

According to the EBRD's report on countries in economic transition, while average weighted growth in all the EBRD member countries will be 7 percent in 2007 against 6.9 percent in 2006, Azerbaijan's GDP will grow at 30 percent compared to last year's 34.5 percent. According to the EBRD, inflation in Azerbaijan will rise further.

110. USD 20 BILLION FOR STATE INVESTMENT PROGRAM

The Ministry of Economic Development has announced that the USD 20 billion State Investment program for 2008-11 will focus on infrastructure and social projects. In particular, the Minister of Economic Development announced that in 2008 the GOAJ would invest USD 1 billion in the transport sector, USD 684 million in public utility projects, USD 337 million in water supply and irrigation systems, and around 812 million in the energy sector and manufacturing. In frameworks of the program, the GOAJ plans to

spend USD 4.6 billion in 2008, USD 4.82 billion in 2009, USD 4.45 billion in 2010 and USD 3.88 billion in 2011 respectively. Approximately 79.3 percent of the program cost will come internal financing, while international sources will fund the remaining costs. The general investments directions are the following: infrastructure projects- USD 11.7 billion, social projects-USD 3.78 billion, institutional projects at USD 22.1 million, defense projects at USD 864 million, rehabilitation of the country's released territories at USD 398 million.

11. GOAJ KEEPS SUBSIDIZING FARMERS IN 2008

The GOAJ has announced that it will continue subsidizing 50 percent of the cost of lubricants and fertilizers for Azerbaijani farmers. The State Budget has already utilized USD 57 million out of USD 31.2 million allocated for this purpose. Despite the WTO requirements to minimize the level of subsidies, the GOAJ still plans to allocate USD 91.2 million in this direction in 2008. This will also include subsidized leasing of agricultural equipment on by Agroleasing OJSC at USD 45.6 million.

12. KOREAN STX ENERGY WANTS TO BUILD WIND POWER STATION

The Ministry of Industry & Energy of Azerbaijan announced that Korean STX Energy Co will soon complete a feasibility study on a wind power station project in Azerbaijan. The Cabinet of Ministers and the Office of the President will review the draft next month. The USD 40 million project aims at construction of a wind power station in Gobustan district and is to be completed in late 2008 or early 2009.

13. KOREAN COMPANY TO BUILD NEW PORT

The MED has announced that Korean GSE & Construction was ready to fund out of its own sources construction of the new Baku International Sea Trade Port in the Alat settlement of Baku. Preliminary cost of construction is USD 400 million, with the project to be completed in 2011.

14. GOAJ FOREX RESERVES EXCEED USD 3.26 BILLION

For November 1-6, the National Bank of Azerbaijan's currency

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reserves grew to USD 27.3 million. The NBA reports a 66 percent increase in currency reserves as of the beginning of 2007. The Bank plans to bring the OREX reserves up to USD3.5 billion by the end of 2007.

15. FIRST SUBCONTRACTORS FOR GOLD MINING PSAS ANNOUNCED

Azerbaijan International Mineral Resources Operating Co, Ltd, has announced first subcontracts under the PSA for development and exploration of six gold deposits in Azerbaijan. These are R.I.S.K. Company (Azerbaijan)- the winner of the tender for composition of topographic maps of Chovdar and Garadagh ore deposits (scales 1:10000 and 1:2000), and SRM LLC - the winner of the contract for composition of a report on the influence of geologic works at Chovdar field on environment. The work timeline is 24 months from first quarter of 2008.

16. GOAJ TO NEGOTIATE VOLGA-DON-2 CHANNEL PROJECT

The GOAJ has agreed to negotiate making investments in the construction of the second branch of the Volga-Don channel (Volga-Don 2) with Russia. Under the current arrangements, Azerbaijan pays USD 40,000 per one vessel going through the Russian channels, while Russia pays only USD 4,000. Russia permits no more than 30 Azerbaijani vessels to pass through its internal waters per annum. Azerbaijan received permission for 14 vessels only for the year of 2007.

17. PRESIDENT ESTABLISHES A STRATEGIC RESEARCH CENTER

The GOAJ has established a Strategic Research Centre to coordinate strategic surveys and provide scientific and analytical data support

to the front line ministries and agencies of Azerbaijan. The Center will employ 30 people, and the Ministry of Justice shall register it within 15 days. The Cabinet Ministers shall provide the Centre with an administrative building and necessary equipment within a month and solve issues of financing of the Strategic Research Centre, which will operate under the President's Office of Azerbaijan.

118. COMMERZBANK AG EXPANDS TO AZERBAIJAN

According to the National Bank, Commerzbank AG has almost completed the process of opening a representative office in Baku. The National Bank official indicated that Commerzbank has already submitted a full package of documents and applied for a permission to start operations in Azerbaijan.

119. GOAJ DEVELOPS HOUSING AND PUBLIC UTILITY REFORM

The GOAJ is developing the next program of housing and public utility reform (drafting of its first version was started in 1997) to bring it up for discussion at the Parliament, according to MED Minister Babayev. So far, the GOAJ has only been able to create the state heat supply joint stock company, which in fact, failed to improve heat supplies system Azerbaijan.

120. KESHLI ENTERPRISE TRANSFER TENDER ANNOUNCED

The State Property Management Committee of Azerbaijan has announced extension of the tender procedures for the first stage of transfer Keshli Machine-Building Plant (Azneftkimyamash OJSC) to the territory of the Yashma industrial town at the intersection of Khizi and Absheron regions and for dismantling of the old building and construction of a new one for a military unit located on Heydar Aliyev Avenue of Baku. Both tenders have been prolonged until 11:00 am on November 23, 2007. The documents for participation and the bids are accepted until November 22. Participation cost of each tender is USD 570. Contact phone: (+99412) 490-24-08 (150,242), 490-33-59 (fax).

121. TWO COMPANIES' TRANSFER TENDER ANNOUNCED

The State Property Management Committee of Azerbaijan has announced the tender procedures for the second stage of transfer of Azerelektrosvet OJSC and Ulduz scientific and producer company to the territory of the Yashma industrial town at the intersection of Khizi and Absheron regions. The tenders consist of lots for dismantling of the old building, installation and equipment of companies, storage of companies' property; cleaning of territory; disassembling of companies communications lines. Participation cost of each tender is USD 228. The applicants are to submit tender documents and bid applications by November 20, 2007 at the address: Room 914, 20, Safarov St, Baku. The tender procedure will be held at

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11:00 am November 21, 2007. Contact numbers: (+99412) 490-24-08 (150,242); 490-33-59 (fax).

122. ENVIRONMENT MINISTRY ANNOUNCED A TENDER

The Department of Forest Protection of the Ministry of Environment and Natural Resources of Azerbaijan has announced a tender procedure for reclamation works. The tender includes two lots: creation of root and nursery plant system under conditions of protected ground in the Absheron region area and construction of a water pipeline in Jengi village of Gobustan region. The criteria for selection are low price, quality, financial condition and experience on similar supplies. Tender participation cost on the 1st and 2nd lots is USD 114 and USD285 respectively. The applicants shall submit a bank reference on participation cost payment, work schedule, indicate company's full name, juridical status, properties, the registration country, data about financial condition for the last year of activity, potential, a tax debt lack reference, a 2% bank guarantee, conformity certificates and its issuer sources. The documents should be submitted by 18:00, November 20, 2007 at the address: 100-A, B.Agayev St, Baku. The bids will be received through 18:00, November 22, 2007. The tender will be held at 16:00, November 23, 2007. Contact numbers: (99412) 510-33-34. Contact person: Mehbali

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